

**AR60**

Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R8

# Resolution

E N E R G Y I N C .



**ANNUAL REPORT 1994**

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## BOARD OF DIRECTORS



Top row (from left): David H. McDermid, Lorne A. Hanson, R. Graeme Dales.  
Bottom row (from left): Robert J. Dales, David A. Little, Louis W. MacEachern.

## PRESIDENT'S MESSAGE

**Resolution Energy Inc. is a dynamic, efficient, well-managed and financially sound emerging oil company. It is actively engaged in the search for and production of hydrocarbons. Resolution is directed by a strong, responsible and balanced Board of Directors which is committed to enhancing shareholder value.**

The Directors of Resolution Energy Inc. are pleased to report on our first year of operations. The Company was incorporated on June 3, 1993, listed on the Alberta Stock Exchange as a Junior Capital Pool on September 28, 1993 and completed its Major Transaction on December 21, 1993.

To date, the company has concentrated primarily on finding and developing oil production and reserves, which are characterized by a minimum of elapsed time between drilling and realizing production income. Our first gas production, solution gas from the Buffalo Head oil field, is scheduled to be tied in and generating revenue during October, 1994.

Continued development of the Buffalo Head oil field and exploration success in Sturgeon Lake, Wrentham, Manor and Ingoldsby have dramatically increased production and cash flow, which will assist in maintaining an aggressive exploration program during 1994-1995.

On the basis of June 30, 1994 exit rates of \$0.045/share net earnings before depletion and depreciation, we expect \$0.18 - \$0.20/share net earnings before depletion and depreciation from existing reserves in the next year. The company is then well-positioned to pursue new exploration targets and further develop strategic land positions in Manitoba, Saskatchewan and Turner Valley, Alberta.

ROBERT J. DALES  
PRESIDENT

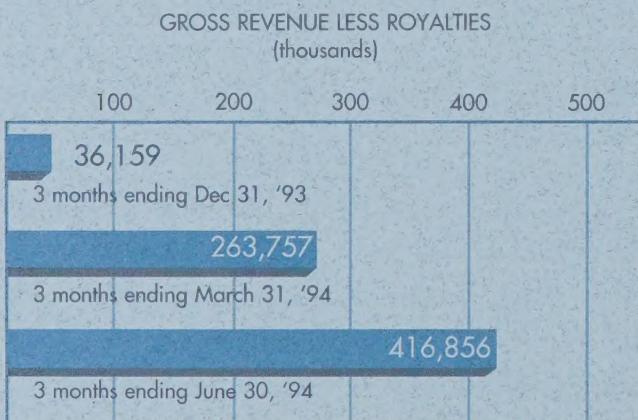
September 19, 1994



## CORPORATE HIGHLIGHTS

Resolution Energy Inc. completed a Major Transaction under the terms and provisions of ASE Policy 4.11 on December 21, 1993. The Properties which were vended into the company at that time for a combination of common shares and cash had a Net Present Value of \$625,000 using a discount rate of 15%, escalating prices and Probable Reserves discounted 50% for risk. Production averaged 70 bbls oil per day and estimated cash flow was \$35,000 per month.

During the next several months Resolution increased its working interest in the Buffalo Head Prospect from 4.94% to 13.25% in sec 29 and 11.67% in the SW 1/4 sec 32, farmed in to a D-3 play at Sturgeon Lake and a Glauconite play at Wrentham, both in Alberta and operated by Harbour Petroleum Company Limited. Additional wells have been drilled at Buffalo Head, Ingoldsby and Carlyle Manor. Working interests in undeveloped acreage were purchased at Lyleton, Manitoba and Turner Valley, Alberta.



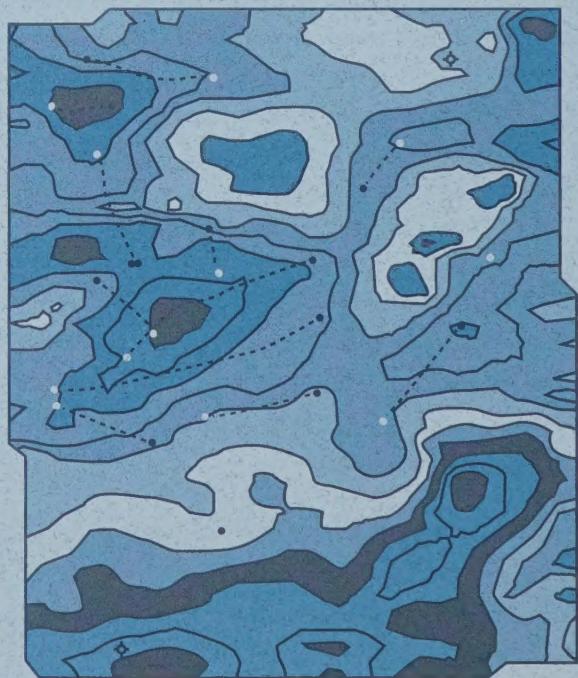
As a result of the exploration and development activity of the Company, independent evaluation of the assets of Resolution show a Net Present Value of \$2,588,000 using a discount rate of 15%, escalating prices and Probable Reserves discounted 50% for risk effective June 30, 1994. In less than 7 months, Resolution has increased its asset

base by over 400% through judicious exploration, development and acquisition. Revenues have also shown a steady increase over the reporting period.

## MAJOR PROPERTIES

### Buffalo Head, Saskatchewan

This property provides steady revenue from light, sweet oil production in the Frobisher/Alida carbonates in sections 29 & 32-7-4 W2M. A total of 13 producing horizontal oil wells, 2 water disposal wells, battery, flowlines and other surface facilities are located on the premises. The property was drilled using a combination of geological mapping and 3-D seismic interpretation to establish targets. Daily production currently averages 275-300 cubic meters oil per day (1700-1900 bbls oil per day) to 100% working interest. Solution gas, which is currently flared, will be conserved and sold this fall, adding to the revenue from the property..



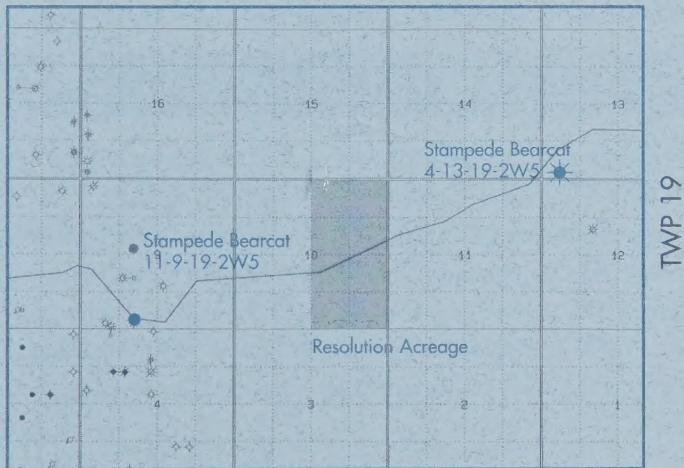
3-D Seismic at Buffalo Head



## Turner Valley, Alberta

Resolution has a 10% working interest in 3.75 sections of undeveloped land in Townships 18 & 19, Ranges 1 & 2 W5M, some of which is very close to recent drilling activity carried out by Bearcat, Stampede and partners. Our company participated in a cased suspended, exploration well in sec 22-18-2 W5M. The well suffered technical difficulties and did not test the primary zones of interest, which were the post-Mississippian Brown, Home and Dalhousie sands. The deeper Devonian and Mississippian targets of Bearcat, Stampede et al are also untested on our acreage.

RGE2 W5M



Turner Valley Area

## Sturgeon Lake, Alberta

A single producing D-3 oil well was drilled early in the year on the basis of 3-D seismic interpretation. 8-10 meters of oil column was intersected in the carbonates. The well currently produces approximately 165 bopd.

## Wrentham, Alberta

The first oil well on this prospect intersected 10 meters of oil saturated Glauconite sand which has been on production since this spring. Follow up wells were drilled but have not been as successful as the initial test, in which Resolution has a 25% working interest before pay out.

## Carlyle Manor, Saskatchewan

Recent drilling activity near this prospect encouraged the Operator to drill three additional wells on the property offsetting a marginal oil producer. Initial results suggest excellent oil productivity and new revenues from these wells will add significantly to cash flow.

## **RESERVES AND FUTURE NET REVENUE**

The following tables set forth Resolution's consolidated oil, natural gas and gas liquids reserves and the present worth of the future net revenues associated with such reserves, including ARTC. The reserve and future net revenue information presented below is based upon a report effective June 30, 1994 prepared by Paddock Lindstrom & Associates Limited. Assumptions and qualifications contained in the Paddock Lindstrom Report relating to prices, costs and inflation are set forth in the notes following the tables. All evaluations have been stated prior to any provision for income taxes, interest costs, or general and administrative costs, and after deduction of estimated future capital expenditures. It should not be assumed that the estimated future net production revenues represent the fair market value of the reserves of the Company. All reserves are determined in accordance with National Policy 2B.



## RESERVES

<b>RESERVES CATEGORY</b>	<b>OIL</b>		<b>SALES GAS</b>		<b>NGL</b>		<b>PRESENT VALUE CASH FLOW</b>				
	GROSS MSth	NET MSth	GROSS MMcf	NET MMcf	GROSS MSth	NET MSth	PW(0) (M\$)	PW(10) (M\$)	PW(15) (M\$)	PW(20) (M\$)	
proved producing	326	253	---	---	---	---	5,257	2,831	2,414	2,140	
proved non-producing	1	1	---	---	---	---	2	1	1	1	---
proved undeveloped	---	---	106	104	---	---	141	68	56	49	
total proved	327	254	106	104	---	---	5,400	2,900	2,471	2,189	
probable additional	37	33	---	---	---	---	429	281	235	202	
total proved & probable	364	287	106	104	---	---	5,829	3,181	2,706	2,391	
50% reduction for risk	(19)	(17)	(--)	(--)	(--)	(--)	(215)	(141)	(118)	(101)	
risked proved & probable	345	270	106	104	---	---	5,614	3,040	2,588	2,290	

Land values for the undeveloped properties were determined by Seaton-Jordan & Associates Ltd. in a separate report dated July 5, 1994. The total value was calculated to be \$163,664.

## ALBERTA ROYALTY TAX CREDIT

The Alberta Royalty Tax credit (ARTC) is a program designed to stimulate the activity of the petroleum industry through a rebate on Provincial Crown Royalties. Effective January 1, 1990, the rebate varies from a maximum of 85% of \$2.5 MM when the oil price is below \$100 per m<sup>3</sup> to a minimum of 25 percent of \$2.5 MM when the oil price is above \$210 per m<sup>3</sup>. The current ARTC policy is in effect until the end of 1994. Effective January 1, 1995, the rebate will vary from a maximum of 75 percent of \$2.0 MM when the oil price is below \$100 per m<sup>3</sup> to a minimum of 25 percent of \$2.0 MM when the oil price is above \$210 per m<sup>3</sup>. Any future changes in ARTC policy will be announced three years in advance of the effective date of the change. For this report it was assumed that the credit would be extended indefinitely. The present value of the ARTC is shown on the following table:

<b>RESERVES CATEGORY</b>	<b>PRESENT VALUE ARTC</b>			
	PW(0) (M\$)	PW(10) (M\$)	PW(15) (M\$)	PW(20) (M\$)
Proved producing	56	46	44	40
Proved non-producing	---	---	---	---
Proved undeveloped	---	---	---	---
Total proved	56	46	44	40
Probable additional	8	7	6	6
Total proved & probable	64	53	50	46
50% reduction for risk	(4)	(4)	(3)	(3)
Risked proved & probable	60	49	47	43



## AUDITOR'S REPORT

To the Shareholders of  
Resolution Energy Inc.

We have audited the balance sheet of Resolution Energy Inc. as at June 30, 1994 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Chartered Accountants

Calgary, Alberta  
September 23, 1994



## BALANCE SHEET

JUNE 30, 1994

**ASSETS**

## Current assets:

Cash	\$	48,448
Accounts receivable		231,917
Prepaid expenses		2,840
Recoverable GST		4,138
Recoverable income taxes		4,454
		<hr/>
		291,797
Property and equipment (Notes 2 and 3)		2,246,505
	\$	<hr/>
	\$	2,538,302

**LIABILITIES AND SHAREHOLDERS' EQUITY**

## Current liabilities:

Accounts payable	\$	161,262
Loan payable (Note 4)		100,000
Accrued interest payable		4,960
Current portion of note payable		15,000
		<hr/>
		281,222
Note payable, non-interest bearing, repayable at \$1,250 per month, net of current portion		12,500
Debenture payable (Note 5)		500,000
Provision for future site restoration (Note 2)		3,000
Deferred income taxes (Note 6)		318,206
Shareholders' equity (Note 7):		
Share capital	\$	1,279,888
Retained earnings		143,486
		<hr/>
		1,423,374
	\$	<hr/>
	\$	2,538,302

**APPROVED BY THE BOARD:**

Director

Director



## STATEMENT OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 1994

**Revenue:**

Oil and gas production, net of royalties	\$	716,771
Royalties		4,759
		<hr/>
		721,530

**Expenses:**

Production expenses	\$	99,736
Depletion and amortization		343,914
Provision for future site restoration		3,000
Interest -Long-term		18,629
-Short-term		1,262
General and administrative (Schedule I)		<hr/>
		69,351
		<hr/>
		535,892

Income before income taxes		185,638
Income taxes - Current (ARTC recovery)		(4,454)
- Deferred		<hr/>
		46,606
		<hr/>
		42,152

Net income for the year and retained earnings at end of year	\$	143,486
		<hr/>

Earnings per common share	\$	0.03
		<hr/>



## STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 1994

**Operating activities:**

Net income for the year	\$	143,486
Add: Non-cash expenses		
Depletion and amortization	\$	343,914
Provision for future site restoration		3,000
Deferred income taxes		<u>46,606</u>
		<u>393,520</u>
		537,006
Less: Increase in non-cash working capital		(77,127)

Cash provided by operations

459,879

**Financing activities:**

Share capital issued net of share issue costs	1,551,488
Debenture issue	500,000
Loan payable advance	100,000
Note payable advance, net of repayments	<u>27,500</u>
	<u>2,178,988</u>

**Investing activities:**

Acquisition of property and equipment	(2,590,419)
Increase in cash for the year and cash at end of year	\$ 48,448

## SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED JUNE 30, 1994

Accounting	\$	3,000
Consulting and management fees		14,519
Geological and technical services		2,348
Insurance		5,361
Legal		12,486
Office		9,520
Registration and listing fees		10,260
Shareholder communication		3,175
Telephone and fax		1,398
Transfer agent		<u>7,284</u>
	\$	<u>69,351</u>



## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1994

### 1. Incorporation and operations:

The Company was incorporated under the Alberta Corporations Act on June 3, 1993 and accordingly these financial statements reflect the first year of operations. The Company filed a prospectus on August 26, 1993 with the Alberta Regulatory Authorities and sold 2,000,000 shares at \$0.15 per share in a public offering. Upon completion of that issue it was classified as a Junior Capital Pool corporation as defined in the Alberta Securities Commission Policy 4.11.

Effective December 1, 1993 the Company, as its major transaction, acquired certain producing petroleum properties valued at \$563,000 (valued using a 15% discount, constant pricing on proven reserves and 50% discount on probable reserves) in exchange for \$178,000 in cash and the issuance of 2,000,300 treasury shares at \$0.19 per share.

### 2. Significant accounting policies:

#### (a) Petroleum and natural gas operations

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment, related overhead costs, and capitalized interest related to unproven properties and major development projects. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a unit-of-production method based upon estimated proven net reserves. In calculating depletion, oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product. Costs of acquiring and evaluating unproven properties and major development projects are excluded from the depletion calculation until it is determined whether or not proven reserves are attributable to the properties, the major development projects are complete, or impairment occurs.

Gains or losses are recognized upon the sale or disposition of properties when proven reserves of those properties are significant in relation to the Company's total reserves.

Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proven reserves, based upon prices at June 30, 1994, plus the value of unproven properties and major development projects. Costs accumulated in all cost centres are limited to the aggregate value of unproven properties and major development projects, less the aggregate estimated future general and administrative, financing costs and income taxes.

All of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1994

**2. Significant accounting policies (continued):**

(b) Amortization:

Amortization is provided on production equipment and related facilities using the unit-of-production method based on estimated proven recoverable reserves. Office equipment is recorded at cost and amortized using the declining balance method on a 20% declining balance basis.

(c) Future site restoration costs:

Estimated future costs of restoring the Company's oil and gas properties are being prorated on the unit-of-production basis. Such costs are expensed quarterly and accumulated in the provision account based upon proven reserve estimates and current production levels. When expenditures are made to restore a property, the accrued provision is charged with these expenditures.

(d) Flow-through shares:

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. However, for accounting purposes the funds expended are recorded in the accounts as share capital but reduced by the tax effect of these expenditures not being deductible for income tax purposes.

**3. Property and equipment:**

	Cost	Accumulated Amortization	Net Book Value
Petroleum and natural gas properties			
Acquisition and exploration costs	\$ 2,181,929	\$ 287,021	\$ 1,894,908
Well equipment and related facilities	382,455	55,609	326,846
Office equipment	26,035	1,284	24,751
	<u>\$ 2,590,419</u>	<u>\$ 343,914</u>	<u>\$ 2,246,505</u>

At June 30, 1994 property and equipment is recorded at a net book value which is \$459,611 greater than the net cost for income tax purposes. However, when all expenditures of funds raised under flow-through share arrangements have been renounced to shareholders, this difference will amount to \$881,000.

**4. Loan payable:**

The loan payable bears interest at 2% over CIBC prime rate and is repayable August 15, 1994, together with a fee of 2%.



## NOTES TO FINANCIAL STATEMENTS [CONTINUED]

JUNE 30, 1994

**5. Debenture payable:**

The debenture bears interest at 9% per annum, is secured by a floating charge on all assets, is repayable in full January 31, 1996 and is convertible to common shares of the Company on the basis of \$0.40 per share.

**6. Deferred income taxes:**

Deferred income taxes arise from the fact that deductions related to the petroleum and natural gas properties for income tax purposes together with costs incurred under flow-through share agreements exceeded deductions for accounting purposes by \$881,000. The future income tax liability arising from this difference is reflected as a deferred income tax liability.

**7. Share capital:**

(a) Authorized -

An unlimited number of common shares

(b) Issued -

Shares were issued during the year as follows:

	Number of Shares	Consideration Per Share	Total
Original issue for cash	1,190,000	\$ 0.05	\$ 59,500
Public issue for cash	2,000,000	0.15	300,000
Less: Related share issue costs			(46,711)
Issued in major transactions for properties	2,000,300	0.20	384,999
Issued to brokers on exercise of options	200,000	0.15	30,000
Flow-through share offering for cash	1,265,000	0.50	632,500
Flow-through share offering for cash	175,000	0.82	143,500
Deferred income taxes provided in respect of flow-through shares issued			(271,600)
Stock options exercised	318,000	0.15	47,700
	<u>7,148,300</u>		<u>\$ 1,279,888</u>



## NOTES TO FINANCIAL STATEMENTS [CONTINUED]

### 7. Share Capital (continued)

- (c) During 1994 the Company granted options to its directors, none of which had been exercised at June 30, 1994, to acquire a total of 325,000 shares at a price of \$0.40 per share. If not exercised by December 20, 1998, the options will expire.
- (d) The Company has reserved 1,250,000 common shares to be issued in the event that the debenture holders described in Note 5 exercise their conversion rights.
- (e) As described in Note 1, certain resource expenditure deductions, funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. The income tax effect of this renunciation has been offset against share capital.

### 8. Income taxes:

Income taxes (excluding Alberta Royalty Tax Credit) vary from that which would be computed by applying statutory rates to income before income taxes (pre-tax earnings) as follows:

	Amount	Percentage of Pre Tax Earnings
Computed income tax expense	\$ 82,312	44.34
Increase (decrease) resulting from:		
Federal resource allowance in excess of non-deductible crown charges	(32,895)	(17.72)
Permanent difference on amortization of share issue costs	(4,142)	(2.23)
Depletion related to costs renounced to investors for income tax purposes	20,100	10.83
Timing differences	<u>(65,375)</u>	<u>(35.22)</u>
Income tax expense	<u>\$ —</u>	<u>—</u>

### 9. Related party transactions:

- (a) During the year the Company acquired certain oil and gas properties from directors of the Company for a total consideration of \$273,667 which consideration was paid by \$182,260 in cash and the issue of 474,850 shares of the Company.
- (b) During the year the Company paid \$29,850 in geological fees, management fees, rent and secretarial services to a company owned by one director of Resolution and \$3,000 in accounting fees to an accounting firm in which a second director is a partner.



## CORPORATE INFORMATION

### Head Office

Incorporated June 3, 1993

HEAD OFFICE  
1318, 505 - Third street, S.W.  
Calgary, Alberta

### Bankers

ROYAL BANK OF CANADA  
Calgary, Alberta

### Auditors

DOANE RAYMOND  
Calgary, Alberta

### Solicitors

BENNETT JONES VERCHERE  
Calgary, Alberta

### Registrar and Transfer Agent

MONTRÉAL TRUST COMPANY OF CANADA  
Calgary, Alberta

### Annual General Meeting

The Annual Meeting of shareholders of Resolution Energy Inc. will be held in the Company's head office located at 505 Third Street, South West, Calgary, Alberta on Tuesday, November 15th, 1994 at 10:00 a.m. in the 2nd floor meeting room.

### Officers

ROBERT J. DALES  
*President and Director*

R. GRAEME DALES  
*Vice President and Director*

LORNE A. HANSON  
*Treasurer and Director*

DAVID H. MCDERMID  
*Secretary and Director*

### Stock Exchange Listings and Symbol

ALBERTA STOCK EXCHANGE  
*Trading Symbol: RLN*

### Directors

ROBERT J. DALES  
Calgary, Alberta

R. GRAEME DALES  
Calgary, Alberta

LORNE A. HANSON  
Calgary, Alberta

DAVID H. MCDERMID  
Calgary, Alberta

LOUIS W. MACEACHERN  
Calgary, Alberta

DAVID A. LITTLE  
Calgary, Alberta



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